

PROPOSED RESOLUTION

Resolution W-5012
DWA/RSK/BMD/PTL/ds4

AGENDA ID #13380 (Rev. 1)
AGENDA ID #21

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DIVISION OF WATER AND AUDITS
Water and Sewer Advisory Branch

RESOLUTION W-5012
November 6, 2014

RESOLUTION

(RES. W-5012) DEL ORO WATER COMPANY MAGALIA DISTRICT. ORDER AUTHORIZING AN INTERIM GENERAL RATE INCREASE SUBJECT TO REFUND IN ANNUAL REVENUE OF \$17,745, OR 9.45%, FOR TEST YEAR 2014.

SUMMARY

Del Oro Water Company filed Advice Letters 382 and 382-A on May 1, 2014 and June 30, 2014, respectively, requesting authority under Section VI of General Order 96-B and Section 454 of the Public Utilities Code to increase rates for water service in its Magalia District by \$25,753, or 13.91%, over current revenues in Test Year 2014 due to increased expenses and earn an adequate return on investment.

This resolution grants an interim general rate increase of \$17,745, or 9.45%, subject to increase or decrease, using a rate of return of 10.10% for Test Year 2014.

This resolution also addresses issues of concern to the Division of Water and Audits with respect to Del Oro Water Company's affiliate transactions. As discussed in Resolution W-4954 for Del Oro Water Company's California Pines District, Del Oro Water Company was directed to file an application for review of its general office, affiliate transactions and non-tariffed goods and services. Del Oro Water Company filed Application 13-12-002 on December 2, 2013. Consistent with Resolution W-4954, the rates adopted in this resolution are interim rates, subject to increase or decrease, based on the findings of that application.

BACKGROUND

Del Oro Water Company (DOWC) filed its last general rate case (GRC) for its Magalia District (Magalia) through draft advice letter on June 5, 2009. By Resolution (Res.) W-4797, dated October 29, 2009, we granted DOWC a general rate increase of \$16,640, or 10.33%, and a rate of return (ROR) of 10.80% for Test Year (TY) 2009, and concurrently by Res. W-4807, dated November 4, 2009, which corrected errors to Res. W-4797.

PROPOSED RESOLUTION

**Resolution W-5012
DWA/RSK/BMD/PTL/ds4**

November 6, 2014 (Rev. 1)

The present rates became effective on July 1, 2014, by approval of Advice Letter (AL) 389, which authorized an interim rate increase of 1.5%, subject to increase or decrease.

DOWC is a Class B multi-district water utility providing water service to 17 districts throughout California. Its main office is located in Chico, California. Magalia is located north of the Town of Paradise and south of the Paradise Pines District, Butte County and provides service to 272 metered rate customers.

The Magalia system consists of two wells, one 250,000-gallon steel tank, and an accompanying distribution system. The distribution system consists of 24,800 feet of mains ranging from 2 to 8 inches in diameter.

NOTICE AND PROTESTS

Notice of the public meeting and proposed rate increase was published on the Paradise Post, a newspaper of local circulation, on July 12, 2014. The Division of Water and Audits (Division), in cooperation with DOWC, conducted a public meeting on August 14, 2014 at 6:30 PM at the Paradise Pines Golf Course Club House Conference Room, 13917 South Park Drive, Magalia, CA. The Division and DOWC received no responses or protests regarding the proposed rate decrease.

DISCUSSION

In reviewing DOWC's rate increase request, the Division made an independent analysis of DOWC's Magalia operations. Appendix A of this resolution shows DOWC's and the Division's estimated summary of earnings at present, proposed and recommended rates for TY 2014.

DOWC was informed of the Division's differing views of revenues and expenses and agrees with the Division's recommended revenue requirement in Appendix A, as well as the recommended rates contained in Appendix B. The Division recommends that the Commission approve the rate increase and resulting rates shown in Appendix B.

Revenues

The difference between Magalia's present revenues of \$185,128 and Division's present revenues of \$187,905 is due to DOWC's use of estimated revenues while Division used the present interim rates by approval of AL 389, which authorized an interim rate increase of 1.5%.

PROPOSED RESOLUTION

Resolution W-5012
DWA/RSK/BMD/PTL/ds4

November 6, 2014 (Rev. 1)

Expenses

The Division reviewed Magalia's estimated 2014 operating expenses, including purchased power, employee labor, materials, plant maintenance, office salaries, office services and rentals, office supplies and expenses, professional services, insurance, regulatory and general expenses, depreciation, and property taxes. The Division verified the operating expenses by reviewing supporting documents for substantiation and accuracy and included the amounts that were verifiable and deemed reasonable for ratemaking purposes.

The Division's estimate of Magalia's operating expenses for TY 2014 is based on the Division's analysis of the district's operations and expense data from the years 2011 through 2013, except for expenses relating to purchased power, employee labor, employee pensions and benefits, office and management salaries, transportation expenses, office services and rentals, office supplies and expenses, professional services, and insurance. For estimating purchased power costs, DOWC used 2013 annual usage and applied the power rates that became effective March 1, 2014. The Division concurs.

For employee labor, employee pension and benefits, office and management salaries, Division analyzed DOWC's estimates by evaluating the salaries of comparable positions, with a similar level of work experience, responsibilities and qualifications in Butte County and found them to be reasonable. For estimating transportation expenses, office services and rentals, office supplies and expenses, professional services, and insurance, DOWC allocated these costs based on the percentage of customers in each district relative to the total number of customers in all of the following four districts including Paradise Pines, Magalia, Lime Saddle, and Stirling Bluffs, as the expenses are shared by these four districts. Division concurs with DOWC.

The difference between Magalia's estimate of \$4,407 and Division's estimate of \$4,351 for office services and rentals is due to certain DOWC arithmetic errors. Division recommends \$4,351 for office services and rentals. The difference between Magalia's estimate of \$9,733 and Division's estimate of \$7,899 for office supplies and expenses is also due to certain DOWC arithmetic errors. Division recommends \$7,899 for office supplies and expenses.

For estimating all other expense categories, DOWC used the same method that Division used which is based on a recorded three year average, 2011 through 2013. There are no differences between DOWC's and Division's estimates for all other expense categories.

PROPOSED RESOLUTION

Resolution W-5012
DWA/RSK/BMD/PTL/ds4

November 6, 2014 (Rev. 1)

Allocation of Corporate Expenses

DOWC proportionally allocates the following expenses for its corporate operations among its 17 districts, based on the percentage of customers in each district relative to the total number of customers in all of its districts:

- Management and office salaries, and benefits;
- Office rental and supplies;
- Professional services; and
- Property insurance.

DOWC has approximately 8,228 total customers in its 17 districts, and 272, or 3.31%, of these customers are in Magalia. Based on this percentage, DOWC allocates 3.31% of its shared expenses to Magalia. The Division finds the cost allocation proposed by DOWC for Magalia reasonable for ratemaking purposes. Division also analyzed DOWC's estimates of management and office salaries, and benefits by evaluating the salaries of comparable positions, with a similar level of work experience, responsibilities and qualifications in Butte County and found them to be reasonable.

Affiliate Transactions

Res. W-4954, which provided a rate increase for DOWC's California Pines District (California Pines), discussed DOWC's non-compliance with the affiliate transaction requirements adopted in Decision (D.) 10-10-019. DOWC operates under a parent company structure. Utility Management Services (UMS) is DOWC's parent company. The Safor Corporation (Safor) is a "C" Corporation incorporated in 1957 and a real estate holdings company. DOWC leases and shares office space in a building owned by Safor. UMS as of 2014, employs two full time office personnel; Safor and UMS utilize DOWC personnel and assets to fulfill management, office, accounting and financial duties.

In its GRC request for California Pines, DOWC did not include an apportionment for the salaries of office staff that provided services to DOWC affiliates, nor had they filed the required affiliate transaction report by the March 31, 2012 deadline. DOWC subsequently provided an apportionment for resources shared with their affiliates, and filed their affiliate transaction report on April 2, 2013. The report states that 2.88% of management employee time is spent on affiliate related work. The Division utilizes this apportionment for office staff provided by DOWC to make its salary estimates for TY 2014.

PROPOSED RESOLUTION

Resolution W-5012
DWA/RSK/BMD/PTL/ds4

November 6, 2014 (Rev. 1)

As discussed in Res. W-4954, we directed DOWC to file an application for review of its general office, affiliate transactions and non-tariffed goods and services within 60 days of the effective date of Res. W-4954. DOWC filed this application (A.13-12-002) on December 2, 2013. Furthermore, the Division directed that the rates in any future GRC, including this GRC for Lime Saddle, will be considered "interim rates" and subject to refund based on the findings of the application. Accordingly, the rates authorized in this resolution are considered interim rates, subject to increase or decrease, based on the findings of the application addressing affiliated interests.

Rate Base

DOWC proposed no plant additions in this GRC. Therefore, there are no differences between DOWC's and Division's estimates in depreciation, taxes other than income, and rate base.

Rate of Return

DOWC has requested a 10.80% ROR for Magalia for TY 2014. The Division's March 21, 2014 Memorandum entitled "Rates of Return and Rates of Margin for Class C and Class D Water Utilities" provides guidance for determining an appropriate ROR for utilities by providing a range of ROR's centered on the average rate allowed by the Commission. The Memorandum recommends an average ROR of 10.1% for Class B utilities which the Division also recommends.

Revenues and Rate Design

As shown in Appendix A, the Summary of Earnings for TY 2014, as a result of application of the recommended rate of return, rate base, and operating expenses, Division recommends an increase from present rates of \$17,745, rather than DOWC's recommended increase of \$25,753.

Magalia's interim rates became effective on July 1, 2014, by approval of AL 389, which authorized an interim rate increase of 1.5%, subject to refund, if the rates established in this GRC are lower than the interim rates. The rates authorized by this Resolution are higher than the interim rates; therefore, Magalia should be allowed to file a Tier 2 advice letter within 30 days from the effective date of this Resolution to collect the under-collected revenues from the interim rate date to the effective date of the new rates.

DOWC is a class B utility. Consistent with Standard Practice U-7-W (page 4), the Division proposed rate design would collect 50% of fixed costs through the service charge. The rates proposed by the Division are shown in Appendix B.

PROPOSED RESOLUTION

Resolution W-5012
DWA/RSK/BMD/PTL/ds4

November 6, 2014 (Rev. 1)

Magalia's current rate structure consists of one schedule: No. MD-1A, Annual General Metered Service. At the Division's recommended rates shown in Appendix B, the monthly bill for a residential customer using an average 8,200 gallons of water per month with a 5/8 x 3/4-inch meter will increase from \$55.26 to \$61.09, which is \$5.83 or 10.55%. A comparison of customer bills at present and recommended rates is shown in Appendix C. The adopted quantities and tax calculations are shown in Appendix D.

COMPLIANCE

DOWC has no outstanding compliance orders and the utility has been filing annual reports as required. DOWC has submitted an Affiliate Transaction Report for 2013 as required by D. 10-10-019.

A review of the 2013 California Department of Public Health's (CDPH) Consumer Confidence Report for Magalia shows that its water meets the required quality standards set by the CDPH, and that there are no testing issues with Magalia.

COMMENTS

This is an uncontested matter that pertains solely to a water corporation. Accordingly, pursuant to Public Utilities Code Section 311(g)(3), this resolution is exempt from the 30-day public review and comment period.

FINDINGS

1. The present rates became effective on July 1, 2014, by approval of Advice Letter 389, which authorized an interim rate increase of 1.5%, subject to increase or decrease.
2. DOWC should be allowed to file a Tier 2 advice letter within 30 days from the effective date of this Resolution to collect the under-collected revenues from the interim rate date to the effective date of the new rates.
3. The Summary of Earnings (Appendix A) recommended by the Division of Water and Audits is reasonable and should be adopted.
4. The rates (Appendix B) recommended by the Division of Water and Audits are reasonable and should be adopted.
5. The quantities (Appendix D) used to develop the recommendations of the Division of Water and Audits are reasonable and should be adopted.
6. The water rate increase authorized herein is justified and the resulting rates are just and reasonable.
7. This is an uncontested matter subject to the public notice comment exclusion provided in Public Utilities Code Section 311(g)(3).

PROPOSED RESOLUTION

Resolution W-5012
DWA/RSK/BMD/PTL/ds4

November 6, 2014 (Rev. 1)

THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 to Del Oro Water Company; Magalia District, to file a substitute sheet for Advice Letter 382-A with the revised rate schedules attached to this Resolution as Appendix B, and concurrently cancel its presently effective rate Schedule No. MD-1A, Annual General Metered Service. The effective date of the revised schedules shall be five days after the date of filing.
2. Del Oro Water Company is authorized to file a Tier 2 advice letter within 30 days from the effective date of this Resolution to collect the under-collected revenues from July 1, 2014, the interim rate date, to the effective date of the new rates established in this Resolution. This advice letter shall become effective upon approval by Staff of the Division of Water and Audits.
3. Rates authorized in this resolution shall be interim rates subject to the findings of the application ordered in Resolution W-4954 and subject to refund.

This Resolution is effective today.

I certify that the foregoing Resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on November 6, 2014; the following Commissioners voting favorably thereon:

PAUL CLANON
Executive Director

PROPOSED RESOLUTION

Resolution W-5012
DWA/RSK/BMD/PTL/ds4

November 6, 2014 (Rev. 1)

APPENDIX A DEL ORO WATER COMPANY MAGALIA DISTRICT Summary of Earnings - Test Year 2014

| | UTILITY | | | DIVISION | |
|--------------------------------|----------------|----------------|----------------|----------------|-------------------|
| | Present Rates | Proposed Rates | Interim Rates | Proposed Rates | Recommended Rates |
| Operating Revenues | | | | | |
| Metered Water Revenue | \$185,128 | \$210,881 | \$187,905 | \$205,650 | \$205,650 |
| Total Revenue | 185,128 | 210,881 | 187,905 | 205,650 | 205,650 |
| Operating Expenses | | | | | |
| Purchased Water | 39,040 | 39,040 | 39,040 | 39,040 | 39,040 |
| Purchased Power | 12,770 | 12,770 | 12,770 | 12,770 | 12,770 |
| Other Volume Related | 0 | 0 | 0 | 0 | 0 |
| Employee Labor | 14,963 | 14,963 | 14,963 | 14,963 | 14,963 |
| Materials | 2,185 | 2,185 | 2,185 | 2,185 | 2,185 |
| Contract Work | 1,083 | 1,083 | 1,083 | 1,083 | 1,083 |
| Transportation Expenses | 3,294 | 3,294 | 3,294 | 3,294 | 3,294 |
| Other Plant Maintenance | 1,755 | 1,755 | 1,755 | 1,755 | 1,755 |
| Office Salaries | 20,766 | 20,766 | 20,766 | 20,766 | 20,766 |
| Management Salaries | 4,010 | 4,010 | 4,010 | 4,010 | 4,010 |
| Employee Pensions and Benefits | 8,372 | 8,372 | 8,372 | 8,372 | 8,372 |
| Uncollectibles | 102 | 102 | 102 | 102 | 102 |
| Office Services and Rentals | 4,407 | 4,407 | 4,351 | 4,351 | 4,351 |
| Office Supplies and Expenses | 9,733 | 9,733 | 7,899 | 7,899 | 7,899 |
| Professional Services | 564 | 564 | 564 | 564 | 564 |
| Insurance | 3,166 | 3,166 | 3,166 | 3,166 | 3,166 |
| Regulatory Commission Expense | 200 | 200 | 200 | 200 | 200 |
| General Expense | 3,699 | 3,699 | 3,699 | 3,699 | 3,699 |
| Subtotal | 130,109 | 130,109 | 128,219 | 128,219 | 128,219 |
| Depreciation | 26,920 | 26,920 | 26,920 | 26,920 | 26,920 |
| Taxes Other Than Income | 3,667 | 3,667 | 3,667 | 3,667 | 3,667 |
| State Income Taxes | 2,160 | 4,454 | 2,572 | 4,141 | 4,141 |
| Federal Income Taxes | 3,341 | 6,889 | 3,979 | 6,405 | 6,405 |
| Total Deductions | 166,197 | 172,039 | 165,357 | 169,352 | 169,352 |
| Net Revenue | 18,931 | 38,842 | 22,548 | 36,298 | 36,298 |
| Rate Base | | | | | |
| Average Plant | 944,234 | 944,234 | 944,234 | 1944,234 | 944,234 |
| Average Accum Dep. | 427,789 | 427,789 | 427,789 | 427,789 | 427,789 |
| Net Plant | 516,445 | 516,445 | 516,445 | 516,445 | 516,445 |
| Plus Working Cash | 10,842 | 10,842 | 10,842 | 10,842 | 10,842 |
| Construction work in progress | 402 | 402 | 402 | 402 | 402 |
| Materials & Supplies | 745 | 745 | 745 | 745 | 745 |
| Less Advances | 18,731 | 18,731 | 18,731 | 18,731 | 18,731 |
| Contributions | 88,629 | 88,629 | 88,629 | 88,629 | 88,629 |
| Acquisition Cost & Adjustment | 61,422 | 61,422 | 61,422 | 61,422 | 61,422 |
| Total Rate Base | 359,652 | 359,652 | 359,652 | 359,652 | 359,652 |
| Rate of Return | 5.27% | 10.80% | 6.72% | 10.10% | 10.10% |

(END OF APPENDIX A)

PROPOSED RESOLUTION

Resolution W-5012
DWA/RSK/BMD/PTL/ds4

November 6, 2014 (Rev. 1)

APPENDIX B

**DEL ORO WATER COMPANY
MAGALIA DISTRICT
Schedule No. MD-1A
GENERAL METERED SERVICE
Test Year 2014**

APPLICABILITY

Applicable to all metered water service furnished on an annual basis to the Magalia Service Area.

TERRITORY

All territory served by Del Oro Water Company, Inc. in the area known as Magalia County Water District, Located north of the Town of Paradise and south of the Paradise Pines District of Del Oro Water Company.

RATES

Quantity Charge:

| | | |
|-----------------------------------|---------|-----|
| For all water, per 1,000 gallons. | \$ 5.00 | (I) |
|-----------------------------------|---------|-----|

¹ Monthly Service Charge:

| | <u>Per Meter Per Month</u> | |
|--------------------------|----------------------------|-----|
| For 5/8 x 3/4-inch meter | \$ 20.09 | (R) |
| For 3/4-inch meter | \$ 30.14 | |
| For 1-inch meter | \$ 50.23 | |
| For 2-inch meter | \$160.72 | (R) |

² SRF Surcharge:

| | <u>Per Meter Per Month</u> | <u>Per Meter Per Month</u> |
|--------------------------|----------------------------|----------------------------|
| | 1-10 Years | 11-19 Years |
| For 5/8 x 3/4-inch meter | \$ 5.16 | \$ 4.69 |
| For 3/4-inch meter | \$ 7.74 | \$ 7.03 |
| For 1-inch meter | \$ 12.89 | \$ 11.72 |
| For 1-1/2-inch meter | \$ 25.79 | \$ 23.44 |
| For 2-inch meter | \$ 41.26 | \$ 37.51 |
| For 3-inch meter | \$ 77.36 | \$ 70.32 |
| For 4-inch meter | \$128.93 | \$117.21 |
| For 6-inch meter | \$257.85 | \$234.41 |

1. The Service Charge is a readiness-to-serve charge which is applicable to all metered water service and to which is added to the monthly charge for water used computed at the Quantity Rates.
2. The monthly SRF surcharge is specifically for the repayment of the State Revolving Fund for The Regional Intertie Project as authorized by Decision 08-05-032, as adjusted by Decision No. D. 14-02-034, dated February 27, 2014 as further amended on March 21, 2014. The monthly Surcharge rates are subject to adjustment.

(END OF APPENDIX B)

PROPOSED RESOLUTION

Resolution W-5012
DWA/RSK/BMD/PTL/ds4

November 6, 2014 (Rev. 1)

APPENDIX C

DEL ORO WATER COMPANY MAGALIA DISTRICT COMPARISON OF RATES TEST YEAR 2014

| | <u>Per Meter, Per Month</u> | | | |
|-----------------------------|-----------------------------|----------------------|-----------------------|---------------------|
| | Interim Rates | Recommended Rates | Amount of Increase | Percent Increase |
| Service Charge: | | | | |
| For 5/8 x 3/4-inch meter | \$24.74 | \$ 20.09 | -\$ 4.65 | -18.80% |
| For 3/4-inch meter | \$37.09 | \$30.14 | -\$6.95 | -18.74% |
| For 1-inch meter | \$61.82 | \$50.23 | -\$11.59 | -18.74% |
| For 2-inch meter | \$197.80 | \$160.72 | -\$37.08 | -18.75% |
| Quantity Rate: | | | | |
| All water per 1,000 gallons | \$3.722 | \$5.00 | \$1.278 | 34.34% |

A monthly bill comparison for a customer with a 5/8 x 3/4-inch meter is shown below:

| | | | | |
|------------------------|---------|---------|---------|---------|
| Usage: (1,000 gallons) | | | | |
| 0 | \$24.74 | \$20.09 | -\$4.65 | -18.80% |
| 8.2 (Avg.) | \$55.26 | \$61.09 | \$5.83 | 10.55% |
| 10 | \$61.96 | \$70.09 | \$8.13 | 13.13% |

(END OF APPENDIX C)

PROPOSED RESOLUTION

Resolution W-5012
DWA/RSK/BMD/PTL/ds4

November 6, 2014 (Rev. 1)

APPENDIX D

DEL ORO WATER COMPANY MAGALIA DISTRICT ADOPTED QUANTITIES TEST YEAR 2014

| | |
|-----------------------------------|----------|
| 1. Purchased Water Cost | \$39,040 |
| 2. Purchased Power Cost | \$12,770 |
| 3. Water Sales in 1,000 gallons | 26,800 |
| 4. Payroll | |
| Employee Labor | \$14,963 |
| Office Salaries | \$20,766 |
| Management Salaries | \$4,010 |
| 5. Property Taxes | \$3,667 |
| 6. Service Connections Meter Size | |
| 5/8 x 3/4" | 265 |
| 3/4" | 2 |
| 1" | 2 |
| 2" | 3 |
| <hr/> | |
| Total Metered | 272 |

Adopted Tax Calculation:

| | |
|---------------------------------|-----------|
| 1. Operating Revenues | \$205,650 |
| 2. Expenses | \$128,219 |
| 3. Depreciation | \$26,920 |
| 4. Property Taxes | \$3,667 |
| 5. Taxable Income for State Tax | \$46,844 |
| 6. State Tax (8.84%) | \$4,141 |
| 7. Taxable Income for FIT | \$42,703 |
| 8. Federal Tax | \$6,405 |

(END OF APPENDIX D)

CERTIFICATE OF SERVICE

I certify that I have by either electronic mail or postal mail, this day, served a true copy of Proposed Resolution No. W-5012 on all parties in these filings or their attorneys as shown on the attached lists.

Dated October 27, 2014, at San Francisco, California.

/s/DANIEL SONG

Daniel Song

Parties should notify the Division of Water and Audits, Fourth Floor, California Public Utilities Commission, 505 Van Ness Avenue, San Francisco, CA 94102, of any change of address to ensure that they continue to receive documents. You must indicate the Resolution number on which your name appears.

**DEL ORO WATER COMPANY
MAGALIA DISTRICT**

**ADVICE LETTER NO. 382-A
SERVICE LIST**

California Public Utilities Commission

Division of Ratepayer Advocates

dra_water_al@cpuc.ca.gov

Paradise Irrigation District

Attn: Kevin Phillips

P.O. Box 2409

Paradise, CA 95967

1-530-877-4971

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